

Appendix E – Progress against BDO Recommendations

Recommendations and Action Plan

Audit Conclusions	Current Year Recommendation	Action Taken	Proposed Action
<p><u>Working papers</u></p> <p>A detailed file of electronic working papers was provided to us at the start of the audit, in accordance with the agreed timetable. However, our review of these working papers found a number of gaps and quality issues. Comparison to the detailed schedule of working papers provided to the Council found that only a third of the working papers were in sufficient detail to allow an effective starting point for the audit of those sections.</p>	<p>Management should carry out a critical review of the outcomes of the 2014/15 audit to identify the areas where further improvements need to be made in producing effective working papers.</p> <p>We will continue to work with finance officers to agree the format of required working papers, particularly in respect of schools balances and banks analyses.</p>	<p>A complete review was undertaken after the 2014/15 audit to inform 2015-16 accounts closedown. Improvements have been made since the previous year and these will continue to be built upon.</p>	<p>The Council has once again set up an accounts closedown project group to oversee the preparation for and delivery of the 2015/16 accounts closedown process. The project plan has set out the processes and arrangements that needed to be put in place by the finance team, service areas and third party provider to effectively produce the financial statements for 2015/16 in light of the external auditor's recommendations. The project plan also included actions to ensure that supporting working papers were adequate and produced on a timely basis. We have met with BDO and established their working paper requirements for closedown and this will greatly assist the process. The Closedown group will review the working papers before they are submitted for audit</p>
<p><u>Consolidation of schools</u></p>	<p>Transactions posted to the general ledger should be reconciled</p>	<p>The following has been performed:</p>	<p>Procedure notes are being written to</p>

<p><u>transactions</u></p> <p>The Council's arrangements for consolidating information from schools into the CIES (and the balance sheet) are ineffective. The working papers and journals prepared to support transactions consolidated into the CIES and balance sheet were inadequate.</p>	<p>to underlying schools returns, and finance officers should check that year end returns have been received from all schools. Management should complete a review of the consolidation of schools transactions into the accounts as part of the accounts closedown process.</p>	<ul style="list-style-type: none"> • Visits to schools in January 2016 to support them in providing accurate returns for yearend. • Review with Arvato on ensuring all subjective codes are included in the CFR returns to ensure the schools returns balance with Oracle\Agresso. <p>Unfortunately we cannot make schools provide returns but we will continue to make every effort.</p> <p>Please note in some schools there is a lack of Finance expertise and school returns are not always going to be correct. A reconciliation like last year will be produced to identify the discrepancies</p>	<p>ensure that Non-oracle schools are accounted for properly.</p> <p>We are minimising the debtors and creditors issue by making sure the school return reflect the information in Agresso.</p> <p>We are performing a quarterly reconciliation of DSG income and to net off the amount recouped by the DFE before including the figures in the Financial statements.</p> <p>We plan to start the closedown 2 weeks earlier to give sufficient time for checking and making the necessary adjustments as required.</p> <p>A procedure for Non-oracle schools is currently being written. It will include a consolidation report as part of closedown.</p> <p>School visits will continue to be undertaken to emphasis the importance of school returns and</p>
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			make support available as required to schools that want to participate.
<p><u>Property valuations</u> Management should more fully document its thought process and evidence to support the representation that the carrying values of all assets remain materially accurate as fair value at year end.</p> <p><u>Depreciation of non-current assets: Useful economic lives</u></p> <p>(a) Management should more fully document its annual review of useful lives, depreciation methods and residual values of all classes of assets.</p> <p>(b) The fixed assets register should be updated to ensure that all assets are appropriately depreciated in accordance with the Code requirements.</p> <p>(c) The fixed assets register should be updated to ensure that leased assets are being depreciated over the shorter of the lease life or the expected life of the asset.</p>	<p>Management should more fully document its thought process and evidence to support the representation that the carrying values of non-current assets that have not been formally revalued in the year remain materially accurate as fair value at year end.</p> <p>There remains scope for improvement in the evidence supporting management's annual review of useful lives, depreciation methods and residual values of all classes of assets. Our audit work found no issues with regards to depreciation calculations except for depreciation on leased assets. Part (b) of the recommendation is considered to be implemented.</p>	<p>Property services have spoken to our external auditors and have discussed a way forward to addressing the recommendations.</p>	<p>Useful Economic Lives – There are two points here really, the first is that we have an internal dialogue between ourselves with the aim of identifying whether there are any impairment issues to the buildings we are valuing (i.e. has something burnt down or been flooded). Where these types of impairment have happened we would expect to reflect the issues within the valuation.</p> <p>For all other assets if they are performing the service they should be at the valuation date we would suggest that the full weighted average life that we apply should suffice. It is not often cost effective to perform full condition surveys for all assets each financial year.</p> <p>These weighted average lives are arrived at via our analysis of the component parts of the assets in conjunction with</p>

		<p>how long, from new, one would expect them to last before these elements would need to be replaced and in our view reflect a property type specific methodology as recent construction projects are analysed to arrive at the figures.</p> <p>Property Valuations – I would have thought that the market review document we provide would fill in the gaps here. One other point that we have looked at is valuing the 'high value' assets on an annual basis as this should take materiality out of the equation for any assets not valued which are subject to change since their previous valuations.</p> <p>We have agreed to value annually the high value assets that make up 80% of the total value of the portfolio.</p> <p>We are also undertaking Stock Condition surveys on our assets on a rolling basis which should give more information on the condition and useful life of assets not being revalued in year. In addition we can use some of the work done as</p>
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			part of the asset challenge exercise to give assurance on the useful lives of assets not being revalued in year.
<p><u>Accrual for special education needs (SEN)</u> Management should ensure that the year end accrual for out-of-borough special education need placements is estimated by taking account of the actual number of placements and the expected cost for each; in the light of the accuracy of the prior year accrual.</p>	<p>There remained a number of issues regarding the working papers provided to support the year end SEN accrual. In addition these do not clearly show how the prior year accrual compared to the actual payments made post year end and therefore the extent of any under/over accrual from the prior year impacting on the current year.</p>	<p>There were a number of issues regarding the working papers provided to support the year end SEN accrual. In addition these do not clearly show how the prior year accrual compared to the actual payments made post year end and therefore the extent of any under/over accrual from the prior year impacting on the current year.</p>	<p>Finance staff have visited schools to support them in the production of the necessary figures for the accounts and the working papers to enable the figures to be audited.</p>
<p><u>Fixed assets register</u> Management should ensure that Internal Audit's recommendations on the asset register review in 2013/14 are fully implemented in accordance with agreed timelines.</p>	<p>Internal Audit's conclusion on the asset register in 2014/15 is rated amber/red and there are high priority recommendations relating to the creation of asset management procedures that clearly outlines the responsibilities of all involved departments and staff and the establishment of formal written verification procedures covering the requirement for regular reconciliations to be completed between the asset register and Council property management system.</p>	<p>The Land Terrier would not have the appropriate level of detail required to make a reconciliation with the Asset Register a quick/simple process. Information on the Terrier is stored as large polygons that will most likely contain a large number of Council properties within them. The data is recorded is as per name at time of acquisition i:e Land at Manor Court Farm. The Terrier referencing therefore bears little resemblance to the individual property information held on the Asset Register.</p> <p>The Terrier is also</p>	<p>The method proposed for reconciling is the same as that used by the auditors. A sample of properties will be selected on an annual basis and ensuring the land is Registered with Land Registry and/or we have the associated deeds on file.</p>

		an historical record built up over a number of years and with the inherent defects associated with such records. I daresay the Terrier needs reconciling itself at some point.	
<p><u>Purchase orders</u></p> <p>Management should monitor compliance with its new 'No Purchase Order, No Pay' policy as failure to comply with this policy could result in the Council committing itself to inappropriate expenditure or incurring expenditure in excess of allocated budgets.</p>	<p>Throughout 2014/15 a number of purchase requisitions have continued to be raised retrospectively (11 out of 25 tested by Internal Audit), despite the Council's 'No Purchase Order, No Pay' policy implemented from 1 April 2014.</p>	<p>Communication has been sent out using all available portals in an attempt to increase the performance in this area. Monthly reports are being run to see progress against this policy and which services are improving performance. Training is also being rolled out to improve Compliance. Whilst performance has improved it is still not at the level we would like it to be.</p>	<p>The implementation of Agresso (the new financial management system) will enable to improve the performance of the council in this area.</p>
<p><u>Immaterial disclosures</u></p> <p>The 2014/15 financial statements include a significant number of notes and disclosures that are not material and should be removed, such as intangibles, assets held for sale, inventories, grants received in advance and associated accounting policies.</p> <p>Inclusion of irrelevant or immaterial disclosures in the financial statements</p>	<p>Going forward the Council should review its draft financial statements and remove all immaterial notes and disclosures.</p>		<p>The statements have been reviewed over the past few months. Discussions have been held with BDO to establish the notes not deemed to be material so that they are not included in the 15/16 statements. The CIPFA revised code of practice and guide for practitioners is also being examined to ensure all changes to the code are incorporated.</p>

decreases the usability of the financial statements and detracts from the required material disclosures.			
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